GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:5573
ANSWERED ON:07.04.2017
Trade Credit Insurance
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Will the Minister of FINANCE be pleased to state:

(a) whether the Insurance Regulatory and Development Authority of India (IRDAI) has proposed changes in the guidelines on trade credit insurance and if so, the details thereof;

(b) whether in order to give fillip to the growth of credit insurance market, IRDAI felt it is necessary to revisit the guidelines which regulate the credit insurance business in India; and

(c) if so, the details thereof?

Answer

Minister of State in the Ministry of Finance

(a) to (c): Insurance Regulatory and Development Authority of India (IRDAI) issued revised guidelines on trade credit insurance vide circular no. IRDAI/NL/CIR/CRE/044/03/2016 dated 10th March 2016 after taking into account the changes in economy, especially in the micro, small and medium enterprise sector.

Some of the features of the revised guidelines are as follows:-

(i) The erstwhile norms had disallowed issuance of trade credit policy if the proposer had less than ten buyers. Since the scale of operations of Micro, Small and Medium Enterprise (MSME) sector is usually low, the number of buyers is generally limited. Therefore, in order to extend the credit insurance coverage to the MSME sector, IRDAI had relaxed the norm of minimum 10 buyers. The insurers can now issue credit insurance policy even if the number of buyers is very small.

(ii) The revised guidelines provide for assignment of proceeds of a claim under a trade credit policy to a bank/ Non Banking Financial Company (NBFC) registered with RBI. It would now be easier for companies to obtain finance against the receivables which are insured against non-payment.

(iii) Additionally, the maximum limit of indemnity that an insurer can offer in a trade credit insurance policy has been increased from 80% to 85% of the trade receivables from each buyer. The insurer is now able to grant higher indemnity to the policyholder and hence the potential loss borne by the insured is expected to be lower in the event of non-payment of a buyer.

The above changes are expected to increase the volume of trade credit insurance business and thereby assist in furthering the growth of trade sectors in India including Micro, Small and Medium Enterprises.
d):